MAY 20, 2024

PHILEQUITY CORNER

By Wilson Sy

PhilEquity MANAGEMENT INC.

40,000

Last Friday, the Dow closed at 40,000 for the first time. The Dow first closed above 30,000 on November 24, 2020. It is now up 33.1% since then. Over the same time period, the S&P 500 has gained 45.9% while the Nasdaq is up 38.6%. From its recent bottom last October 27, 2023, the Dow is up 23.4% and has gained 6.1% year-to-date. The S&P 500 is up 28.8% from its October bottom and is up 11.2% year-to-date. Meanwhile, the Nasdaq is up 34.1% from its October low and is up 12.4% year-to-date.

The global stock market's historic highs and the Dow's latest advance were brought about by lighter-than-expected US inflation in April and the recent statements of Federal Reserve (Fed) Chair Jerome Powell.

US CPI lifts markets

The US consumer price index (CPI) rose 0.3% MoM in April, less than the consensus estimate of 0.4%. The YoY rate was at 3.4%, in line with expectations. These signify that inflation is coming down and the Fed's hawkish pause is bearing fruit.

Rate hike off the table

In an interview last week, Powell shared his views regarding the economy, inflation, and monetary policy outlook. He said that an interest rate hike is unlikely to be the Fed's next move. Below are some quotes from Powell's interview.

- "I don't think that it's likely, based on the data that we have, that the next move that we make would be a rate hike. I think it's more likely that we'll be at a place where we hold the policy rate where it is."
- "We did not expect this to be a smooth road. But these (inflation readings in the first quarter) were higher than I think anybody expected. What that has told us is that we'll need to be patient and let restrictive policy do its work."
- "I do think it's really a question of keeping policy at the current rate for longer than had been thought."
- "We think that it's probably a matter of just staying at that stance for longer."
- "Is inflation going to be more persistent going forward? ... I don't think we know that yet. I think we need more than a quarter's worth of data to really make a judgement on that."
- "It looks like it will take longer for us to become confident that inflation is coming down to 2% over time."

"Less hawkish than before"

Last week, Bangko Sentral ng Pilipinas (BSP) Governor Eli Remolona said that the central bank is less hawkish now. Remolona explained, "We are actually somewhat less hawkish than before, which means we could ease/cut rates by the third or fourth quarter this year." When asked about potential cuts to the reserve requirement ratio (RRR), Remolona replied, "We haven't discussed the RRR, but it goes into the agenda once we start easing."

Reasons behind all-time highs

The main thesis, based on what Powell is saying and the strong market reaction, is that interest rates have topped-out. The direction of interest rates is either flat or lower. In the meantime, inflation is going down, rate hikes are off the table, the US economy remains solid, and corporate earnings continue to grow at a healthy pace. It seems like a recipe for a Goldilocks scenario where the US economy is firm but is not overheating while inflation is not too hot. These, and the transformational impact of AI and the productivity enhancements that it brings, is what is driving the market higher.

Bull market continues

The leaders of the current bull market are the Magnificent 7 stocks. These are tech heavyweights Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA, and Tesla. They have been the catalyst or the spark for the extraordinary performance of the US stock market (see *Magnificent Rally*, January 2,2024).

The Dow reached the historic 40,000 last Friday. US stocks and global markets made new all-time highs. This is despite the prospect for higher for longer interest rates, the hostilities in the Middle East, and political risks that may be ushered by the upcoming US election. As long as the reasons behind the bull market play out, this AI-led generational bull market should continue to advance and broaden in the coming years to include other sectors and countries.

Philequity Management is the fund manager of the leading mutual funds in the Philippines. Visit www.philequity.net to learn more about Philequity's managed funds or to view previous articles. For inquiries or to send feedback, please call (02) 8250-8700 or email ask@philequity.net.